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James G. Turino

Vice President
Investment Banking

Prudential Securities Incorporated

One New York Plaza, 18th Floor
New York NY 10292-2018
Tel 212 778-2356 Fax 212 778-5718

DOCKET FILE COPY ORIGINAL

March 16, 1998

Mr. Magalie Roman Salas
Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, D.C. 20554

Re: Notice of Ex Parte Communication
Broadband PCS and F Block Installment
Payment Restructuring; WT Docket No. 97-82

Dear Ms. Salas:

In accordance with Section 1.1206 of the Commission's rules, please put the attached letter into the record for the above-referenced docket. Please direct any questions concerning this matter to me at (212) 778-2356.

Sincerely,

Attachment

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Prudential

Vincent T. Pica II

President
Capital Finance Group

Prudential Securities Incorporated

One New York Plaza, 18th Floor
New York NY 10292-2018
Tel 212 778-4664 Fax 212 778-3268

Via Facsimile: (202) 418-2801

March 16, 1998

Honorable Chairman William Kennard
Federal Communications Commission
1919 M Street N.W.
Washington, D.C. 20554

Re: Broadband PCS C and F Block Installment
Payment Restructuring; WT Docket No. 97-82

Dear Honorable Chairman Kennard:

I have tried to reach you by telephone and members of my investment banking team have tried to schedule a meeting between us regarding the FCC's reconsideration of the C-block payment restructuring. As we anticipate a decision from the FCC in the next few days, I have decided that a letter would provide the most expedient form of communication regarding this important issue.

As I mentioned in my previous letter of February 25, we appreciate the Commission's efforts in its reconsideration of the C-block rules. Insofar as the C- and F-Blocks were created to foster competition in the wireless industry by facilitating entry by small businesses and entrepreneurs, we believe the FCC has come very close to achieving its goals. There are, however, key aspects of the reconsideration which we believe are crucial to attracting long term financing for the C-block. Assuming the FCC's original goals with respect to the C-block have not changed, we strongly recommend that the Commission consider a few simple modifications to the payment terms which will have a large impact on Wall Street's view of the viability of the C-block licensees.

Should the FCC successfully implement these modifications, Prudential Securities is prepared to immediately access the capital markets on behalf of its client, NextWave Telecom Inc., as soon as the FCC's final decision is issued. If the FCC is unable to take these minor but important steps, we believe that most, if not all, C-block licensees will have great difficulty in raising the necessary financing to service their license payments, meet their other debt obligations and satisfy the FCC's build out requirements.

In your evaluation of the FCC's final decision, I would ask you and each of your commissioners to consider that the wireless industry is dominated by incumbent telecom carriers that are providing cellular and PCS service. These incumbent carriers have already been given very substantial and irrevocable competitive advantages because of delays in the licensing and deployment of C-block networks.¹ These all translate into significant disadvantages for C-block

1. These competitive advantages take several forms, including: (i) keeping pricing artificially high in the absence of competition, (ii) permitting incumbents to acquire attractive "early adopter" subscribers, (iii) establishing consumer branding and distribution channels more readily without having to compete with other entrants, thereby reducing marketing costs, and (iv) tying up production and vendor financing capacity for infrastructure equipment and handsets.

new entrants which we believe may never be fully overcome by C-block companies. We believe these same interests stand to gain significantly by continued delays and/ or by a reauction of a significant amount of C-block spectrum at a substantial loss to the C-block licensees and the FCC. If the FCC is interested in advancing the interests of incumbent service providers, we believe the reconsideration points currently under discussion will achieve that goal. If, on the other hand, the FCC's intention is to sustain the original premise of the C-block, to foster competitive entry by small business and entrepreneurs, then our recommendations are as follows:

1. ***Eliminate Penalties Across all Options*** As we have stated before, the proposed penalties for C-block licensees are unwarranted. In granting financing for up to 90% of the license bid amounts on very favorable terms, the FCC surely realized in the creation of the C-block that the licensees would be start-up companies and small businesses without substantial capital resources of their own and which would have to rely on the capital markets to satisfy their obligations to the FCC. To penalize these companies because of their inability to access the capital markets under very difficult capital market conditions within a narrow window of weeks between the time their licenses were granted and before the interest payments were indefinitely suspended by the FCC, not only appears to be unnecessarily harsh, but also contrary to the FCC's original intention in establishing the C-block.

Imposing such penalties deters further investments in the C-block by *increasing write-offs of the original C-block investments* and by permanently stigmatizing the C-block licensees. As the attached table illustrates, it also limits the ability of the C-block licensees to raise additional financing by effectively reducing their equity bases. We maintain that imposing penalties on the C-block licensees represents a substantial victory for incumbent cellular and PCS providers, those most interested in preventing or delaying the build out of the C-block and seeing that spectrum return to auction.

We believe that eliminating penalties across all options, in combination with allowing for flexible adoption of the four restructuring options, is absolutely essential for C-block licensees to selectively reduce their footprints and their debt burdens to manageable levels which will be accepted by the financial community. The "Amnesty Credit", which may be applied towards interest payments on a going forward basis, is a key ingredient of financing the smaller footprint. Without the combination of the disaggregation option and amnesty option credits, because of the lack of sufficient interest coverage from the credit of their original downpayment, we believe the FCC will significantly impair the ability of C-block licensees to finance a smaller footprint with reduced debt on their balance sheets.

Over the next three years, the public investors will fully expect new investment to be applied towards the build-out activities as opposed to replenishing funds already paid to the FCC in the form of penalties. Without a credit for all options, the net result is that the Commission will have effectively eliminated such a significant portion of the existing equity value of the C-block licensees that it will permanently impair future financings. Given that the C-block restructuring proceeding was an idea originally advanced by the Commission, the FCC should seriously consider the impact of its actions on the future ability of the C-block licensees to access the capital markets. We also believe that the elimination of penalties will not change the pro forma outcome of the original auction and will therefore not expose the FCC to liability from unsuccessful bidders or other antagonistic interests. Nevertheless, if the Commission feels obliged to impose penalties, we believe that penalties in excess of 10%-15% of the downpayment amount would have a devastating effect on C-block licensees'

ability to access the public capital markets. In light of very moderate penalties imposed (0.25% of the downpayment) on Carolina PCS, which defaulted on the second downpayment for its C-block licenses, we believe that the Commission has ample precedent to limit the level of these penalties (to the same levels as in the case of Carolina PCS) for those who have never defaulted on any payments to the government.

2. ***Eliminate Suspension Interest*** We believe that suspension interest will be viewed in the financial community as another form of penalty. I would ask the Commission to bear in mind that C-block capital formation has been essentially frozen since the FCC's announcement of the C-block restructuring in May 1997, and that no meaningful investment will be possible until the FCC renders a final, favorable decision. We believe the imposition of interest during this period will be seen as additional penalty which will further stigmatize C-block licensees and reduce their chances of raising capital in a timely and cost effective manner. At a minimum, suspension interest should not accrue prior to the date of the Reconsideration Order (the period of time when there was total uncertainty about the businesses of C-Block licensees).

If the FCC is unable to achieve a quorum on the complete elimination of all penalties and suspension interest, we strongly urge you to consider reducing these penalties so the combined effect does not exceed more than 15% of the licensees original downpayment. We believe that any claim that the reduction or elimination of penalties constitutes a "handout" by the FCC can be easily refuted by the fact that C-block licensees have already suffered substantial impairment of their original investments, have lost the time value of their money during the licensing delays and the restructuring period, and their ability to compete effectively with incumbent wireless service providers. These points are described in further detail in a letter from Prudential Securities' Managing Director Michael Elling to Paul Misener of the FCC, a copy of which is attached.

Although we are presently advising NextWave and have a minority ownership stake in the company, our interest in the C-block extends beyond NextWave. As I mentioned in my previous letter, Prudential Securities is dedicated to assisting new entrants in the wireless industry, and as such, we have made a large investment in this sector and have a strong interest in the long term viability of the C-block. Currently, we believe that the FCC has probably not heard from many investment banking firms advising C-block licensees because most of the licensees do not have active representation on Wall Street. At the same time, we believe that the FCC may in fact hear from several bankers which are actively representing - and which may partially own or control - incumbent service providers. We think it is important that the FCC hear from Wall Street on both sides of the issue before rendering a final decision.

Ultimately, the FCC faces a simple decision. Upholding the status quo by failing to take minor but meaningful steps to support the C-block will be a strong vote for incumbent service providers and will be viewed by the financial community as a serious defeat in the FCC's plan to foster competition in the wireless industry. Alternatively, if the FCC remains committed to its original objectives - to foster competition by facilitating entry into wireless telephony by small businesses and entrepreneurs - it must actively support C-block licensees and, in our view, must go further in the reconsideration to ensure that the C-block becomes financially viable. We believe our recommended actions are minor, can be easily implemented and are completely defensible in the context of auction integrity and competitive "fair play".



Prudential

Prudential Securities Incorporated

I believe the commitment of Prudential Securities is clear. We look forward to a similar commitment from the FCC in its final restructuring order, so that we may resume the task of assisting competitive entrants like NextWave. As always, I welcome the opportunity to meet with you in person, or alternatively to discuss these points in further detail by telephone.

Very truly yours,

Vincent T. Pina

cc: Commissioner Harold Furchtgott-Roth
Commissioner Susan Ness
Commissioner Michael Powell
Commissioner Gloria Tristani
Magalie Roman Salas, Secretary

Impact of 100% Down Payment Recovery for Top 20 BTAs

(Dollars in thousands except per POP figures).

	Disag Option 50% of Downpmt.	Prepay Option 70% of Downpmt.	100% of Downpmt.
Uses of Funds			
Purchase Licenses	270,494	378,691	540,987
per POP	\$2.66	\$3.71	\$5.31
Penalty	270,494	162,296	-
per POP	\$2.66	\$1.59	-
Avg. Lic. Cost/Pop (face)	29.21	49.38	\$47.79
Penalty % of Pop Cost	8.3%	3.1%	-
Amount of Financing Foregone⁽¹⁾	811,480	486,888	-

(1) Assume 3:1 debt:equity ratio



Prudential Securities Incorporated
One New York Plaza, New York, NY 10292
(212) 778-1000

Via Fax: (202) 418-2802

February 12, 1998

Paul E. Misener
Federal Communications Commission
1919 M Street, NW
Washington, DC 20554

re: PCS C-Block Reconsideration

Dear Paul:

George Alex and I would like to thank you for taking time out yesterday to hear our views on the C-Block reconsideration. We wanted to follow up yesterday's meeting, however, on one important question which you raised: whether the C-Block companies and their investors have suffered because of the difficulties encountered in the licensing and financing process. We believe that the C-Block licensees have already suffered in very significant ways on two primary accounts.

1. *Loss of investment value, loss of principal.* C-Block investors have lost value on their investments and are legitimately concerned about the loss of some or all of the principal on their investments. We are aware that several C-Block investors, including some NextWave investors, have either written down, or completely written off, their investments. These actions have been taken because (i) the C-Block companies have been stalled in obtaining the financing necessary to execute their build-out plans, and (ii) doubts about the value of the C-Block licenses in light of current trading levels of comparable publicly-traded PCS companies and the D, E and F-Block auction results. In the case of NextWave, these investors include pension funds, as well as educational and financial institutions, including Prudential itself. The write-off of half of NextWave's private capital equates to the loss of more than \$300 million in cash investments made by these investors.

Although the losses have the potential to be reversed in the event that the stock ultimately appreciates in value, this will probably not happen for a long time, at which point the return on investment will be substantially below the types of returns anticipated by private equity investors. Additionally, to the extent that the Commission proceeds with its plan to penalize the C-Block licensees under the disaggregation and pre-payment options, investor write-downs are likely to increase as the value of their remaining assets is further reduced and the hope for recovery on the value of their stock is further diminished.

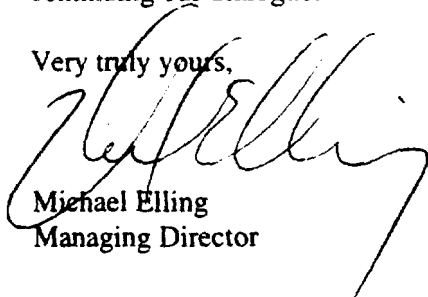
The problems for C-Block licensees are further exacerbated by the fact that, due to delays in business plan implementation (described below) and an overall negative perception of the C-Block, these companies have had to issue more equity at lower prices than originally anticipated in order to raise the financing necessary to weather the delays and proceed with their build outs. This manifests itself in the form of dilution to the original (non-control group) investors. All other things being equal, as the number of shares of a company increases, the value of each share declines. Dilution not only affects existing investors, but also has an impact on the investment decisions for new investors.

2. *Delays in business plan implementation due to licensing and financing difficulties.* Secondly, the C-Block licensees have suffered due to delays in receiving their licenses and delays in obtaining financing. As we pointed out in our previous meeting, the delay in licensing coincided with a significant downturn in the public market values for wireless stocks, including PCS stocks. The nearly-two year delay since the close of the C-Block auction has given incumbent cellular and A and B-Block PCS licensees a very significant and irrevocable competitive advantage in launching their networks and marketing subscribers without competition from C-Block entrants and their resellers. This competitive advantage takes several forms by allowing incumbents to (i) keep pricing artificially high in the absence of competition, (ii) tie up production capacity for infrastructure equipment and handsets, (iii) establish distribution channels without having to compete with other entrants, (iv) establish branding more readily, (v) acquire attractive "early adopter" subscribers and (vi) reduce marketing costs. Although difficult to quantify, these all translate into significant disadvantages for C-Block upstarts which we believe may never be fully overcome by C-Block companies. Given the FCC's original intention in establishing the C-Block, to foster the entrance into PCS by small business and entrepreneurs, I trust that this is not the result the FCC anticipated.

We believe that the proposed penalties for C-Block licensees are unwarranted. Imposing such penalties deters investment by increasing write-offs of the original investments and by permanently stigmatizing the C-Block licensees. It also limits the ability of the C-Block licensees to raise additional financing by effectively reducing their equity bases. We believe that imposing further penalties on the C-Block licensees represents a substantial victory for those most interested in seeing the C-Block spectrum return to auction - incumbent cellular and PCS providers. The re-auction not only bolsters their first-mover competitive advantages, but also creates a new opportunity to acquire and/or control spectrum for their own accounts. In granting 10 year financing for up to 90% of the license bid amounts on very favorable terms, the FCC surely realized in the creation of the C-Block that the licensees would be start-up companies and small businesses without substantial capital resources and which would have to rely on the capital markets to satisfy their obligations to the FCC. To penalize these companies because of their inability to access the capital markets not only appears to be unnecessarily harsh, but also contrary to the FCC's original intention in establishing the C-Block.

I hope you will feel free to contact me with your feedback on these matters, and look forward to continuing our dialogue.

Very truly yours,



Michael Elling
Managing Director